



# Basics of Life Insurance

Understanding the World of Life...Insurance

Presented by....

Policies issued by American General Life Insurance Company ("AGL")

# What is Life Insurance at it's Core?

- A contract where, in exchange for premium payments, provides a lump sum amount of \$ at the death of the insured
- Death benefit is usually larger than the amount of premiums paid (discounted dollars)
- Generally two categories of life insurance: Term and Permanent
  - **Term insurance** is for a specific period of time, which can last for as little as a year or possibly as long as thirty-five years.
  - **Permanent insurance** is intended to cover an individual for their lifetime. It can be purchased with a single premium, premiums paid over a number of years, or over the life of the individual



# What are the key benefits of Life Insurance?

1. When needed most, life insurance provides a lump sum of cash at the death of the insured
2. Life insurance proceeds may avoid probate
3. No public record to whom the death benefit amount is paid
4. Policies generally have some creditor protection (varies by state)
5. Cash values can be accessed on a tax favored basis via withdrawals and loans
6. Life insurance proceeds are generally not subject to federal income taxes
7. Cash values increase on a federal income tax deferred basis

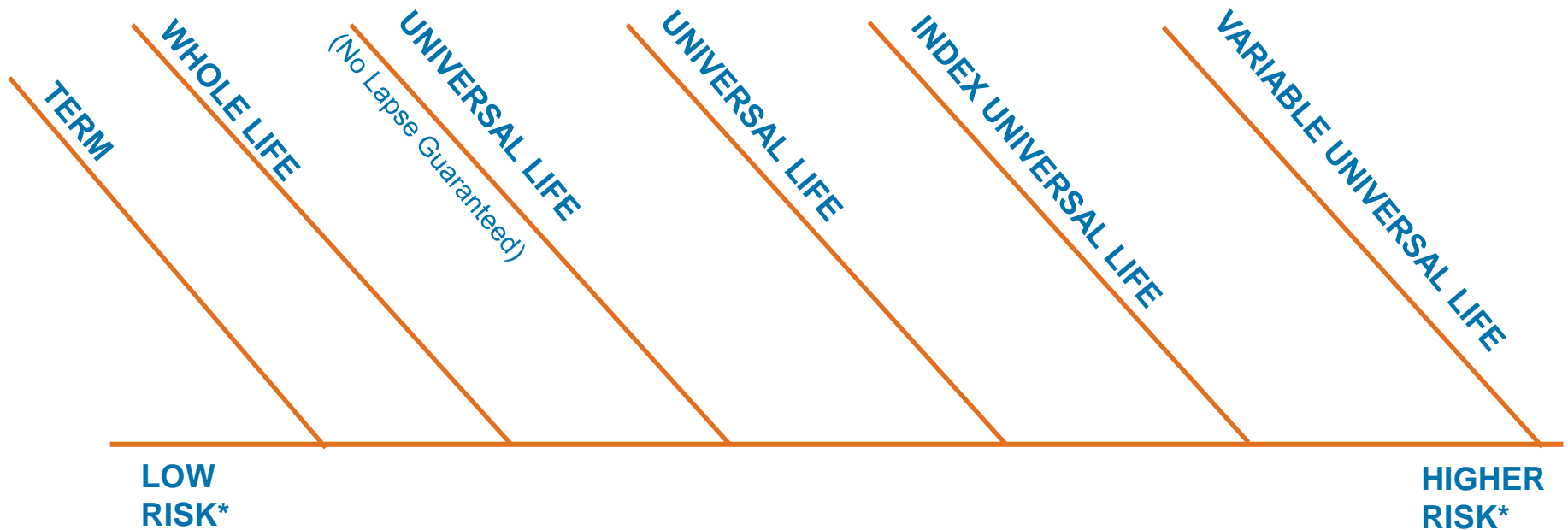


# Life Insurance Can Help...

- Protect against the risk of premature death
- Tax favored wealth creation/accumulation
- Replace human life value
- Fund a business transfer
- Provide for special need children or adults
- Indemnify a business for a key person loss
- Provide funds to pay estate settlement costs
- Create or replace a charitable gift
- Accumulate funds for potential income needs such as education, retirement supplement, other goals
- Finance employee benefit plans
- Equalize inheritances
- Pay off a mortgage



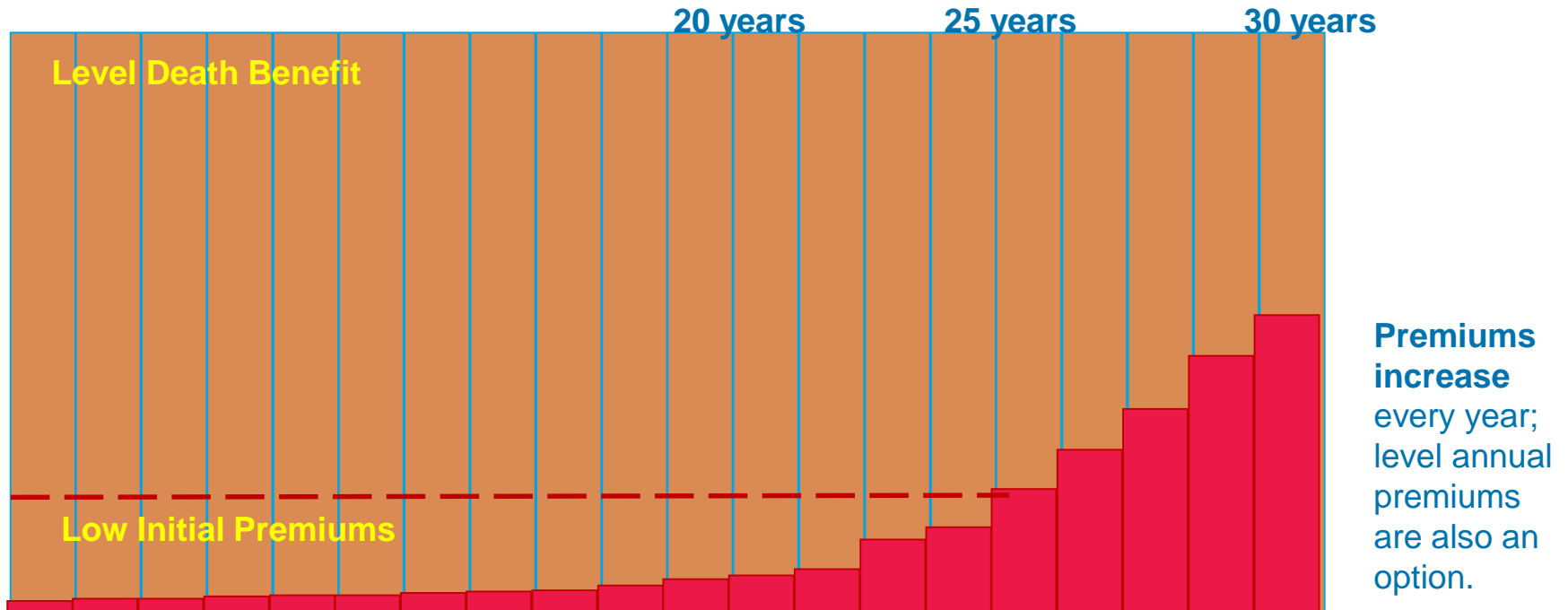
# Spectrum of Life Products



\*Mortality Risk & Interest (Investment) Risk

# Term

Solution to a temporary need or a temporary solution for a long term need



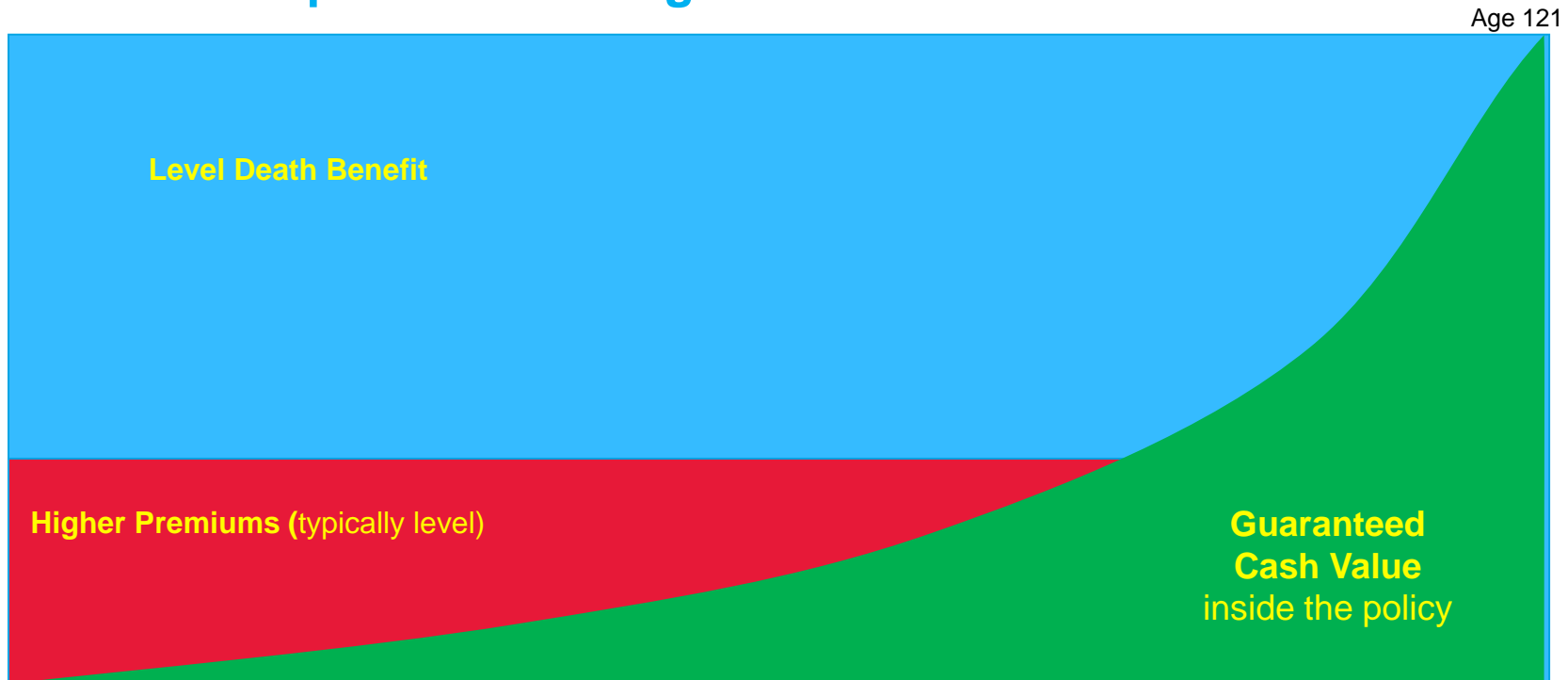
## Features

- Simplest, most inexpensive coverage
- Premiums stay level for a period, then increase significantly
- Policy ends at specified age (e.g., 80) or number of years (e.g., 20)
- Convertible?



# Whole Life

Invented to provide coverage for a client's "whole life"



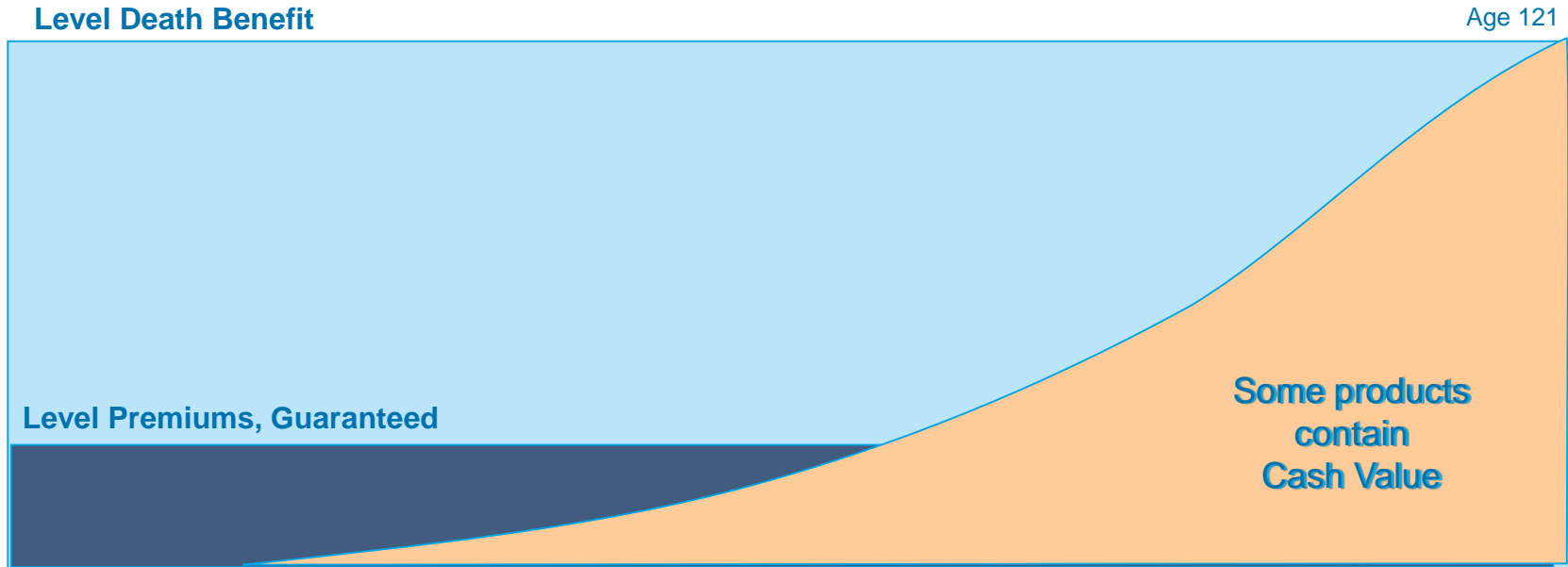
## Features

- Cash value designed to endow at maturity
- Most expensive type of life policy
- Maximum in life policy guarantees
- Inflexible design for changing life events
- Dividends - a distribution of the premium not needed by the Company to pay claims or meet expenses



# Guaranteed Universal Life

## Long term guarantees with UL flexibility



### *Features*

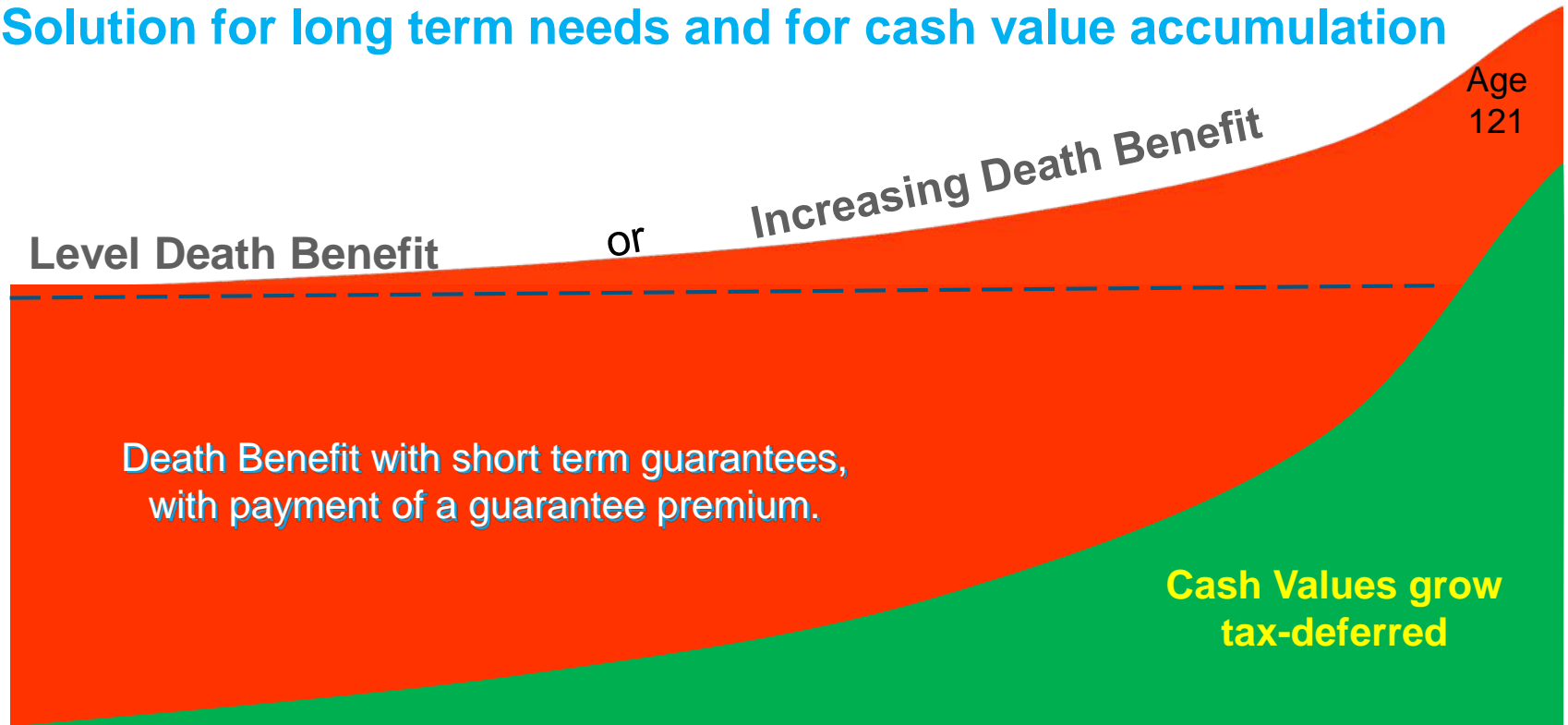
- Guarantee coverage for life (or specified duration)
- Low guaranteed premiums
- Most do not offer cash value; some do
- A “permanent” alternative to term
- Priced lower than WL but higher than UL’s





# Universal Life

Solution for long term needs and for cash value accumulation



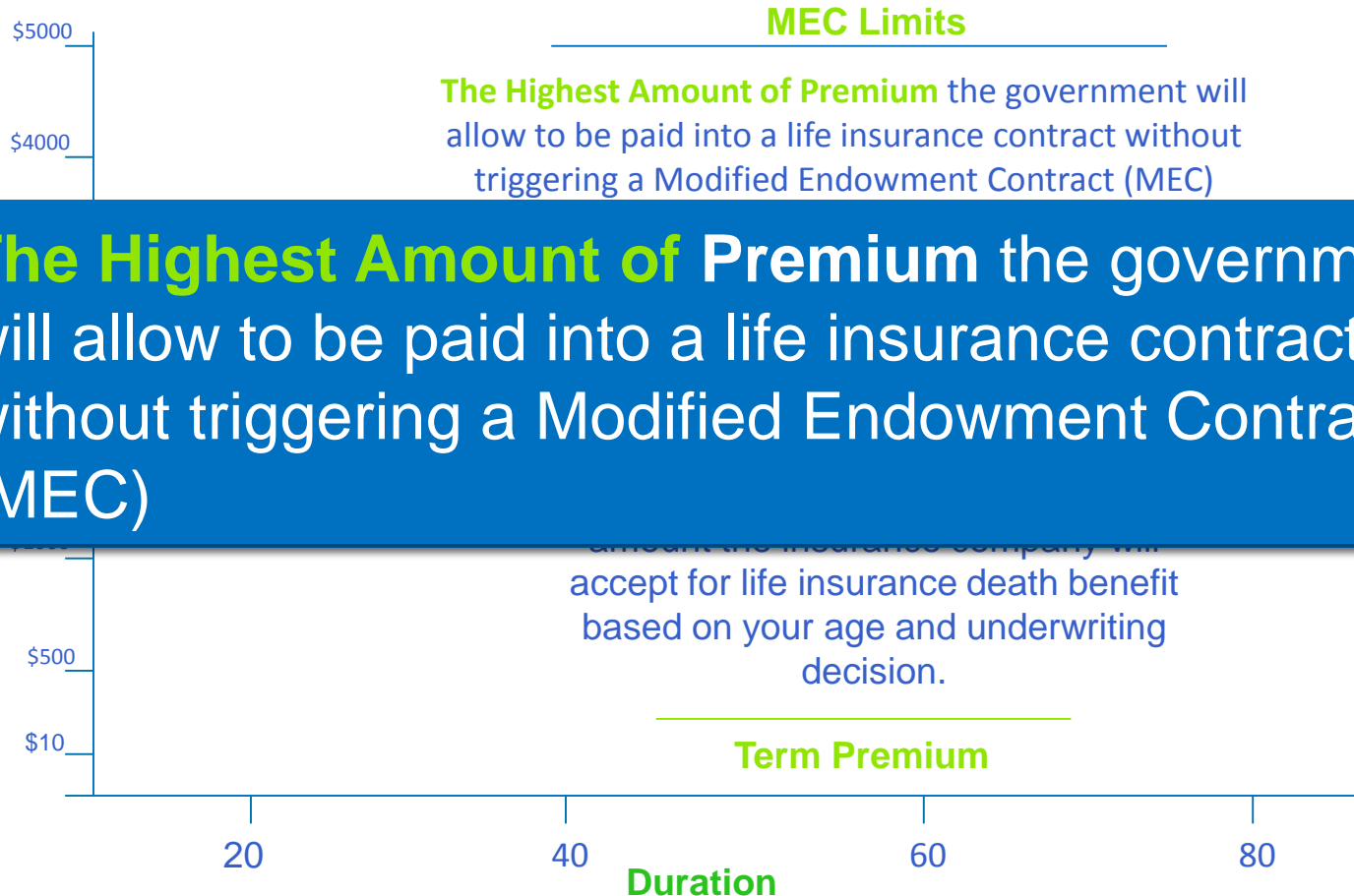
## Features

- Flexible design – Can increase or decrease premiums or face amount\*
- Unbundled cost structure compared to WL
- Long term guarantees at lower cost than WL
- Interest credited to policy's account value based on the carriers declared interest account
- Interest rate has a guaranteed floor

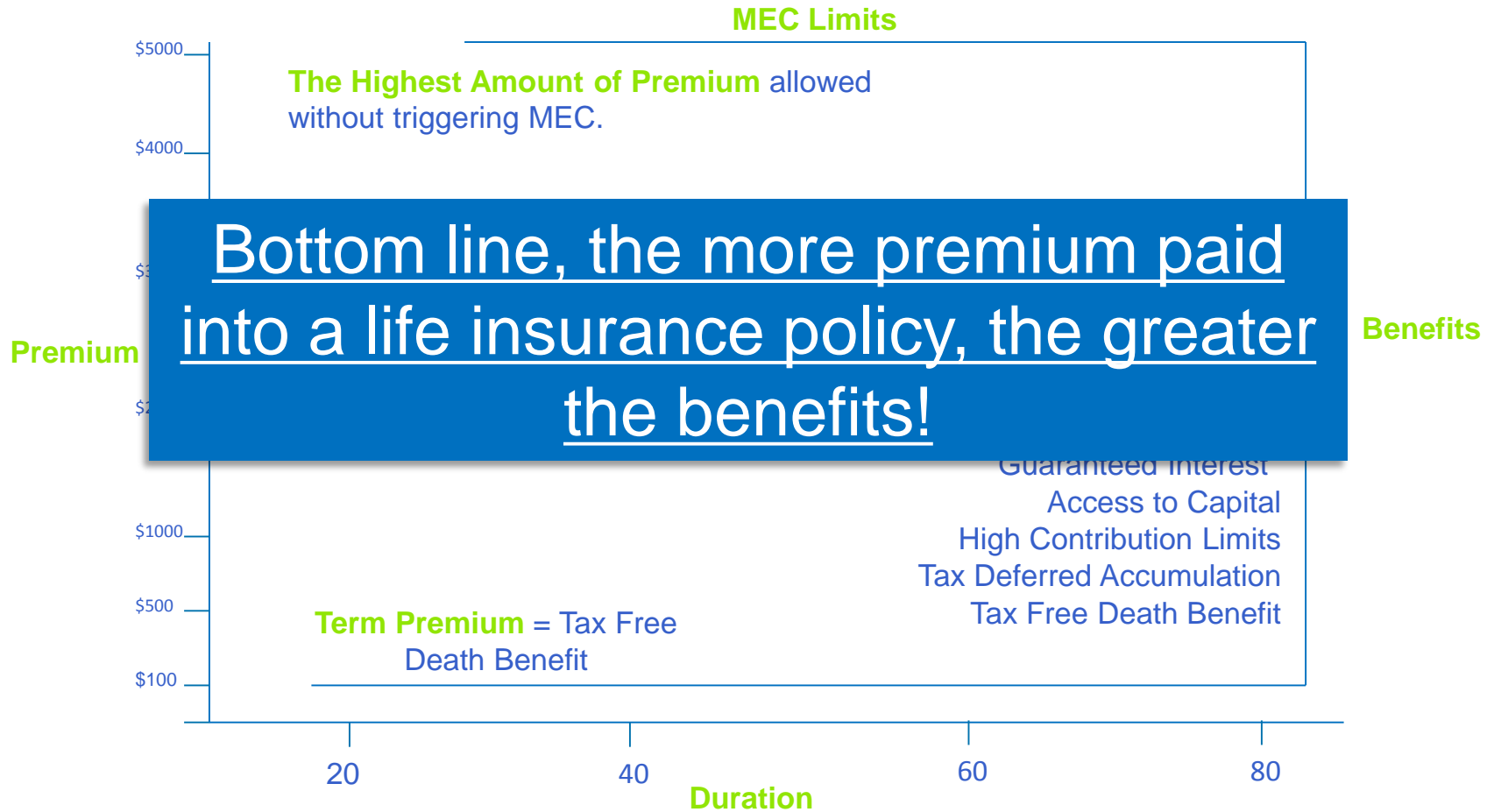


\*Increases or decreases must adhere to guidelines

# Benefits of Life Insurance

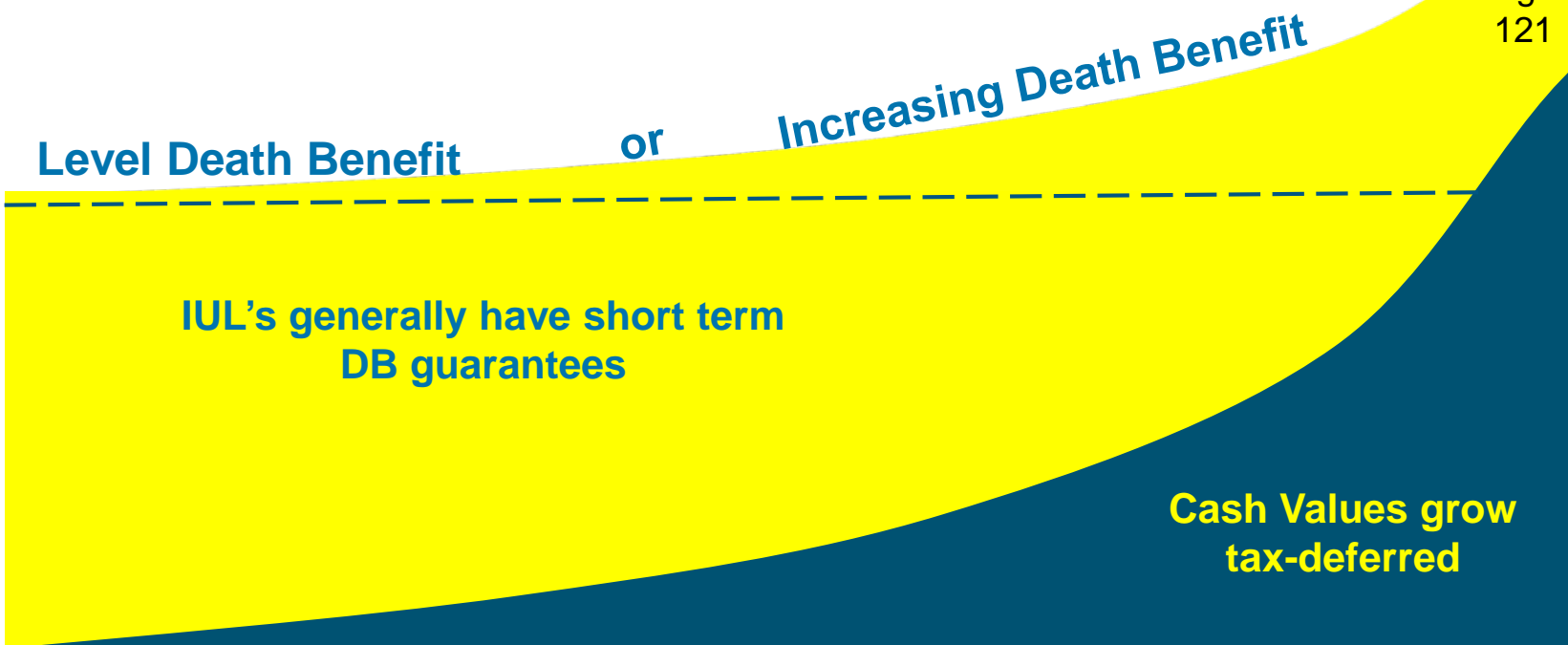


# Benefits of Life Insurance



# Index Universal Life

## Market performance with downside protection



- Index interest tied to performance of an index (or indices)
- Allows cash values to increase (within limits) as markets increase
- Guaranteed floor - Protects cash values from negative returns when markets decrease
- Provides automatic diversification.
- Fixed interest crediting (like UL) also available
- Not a securities product



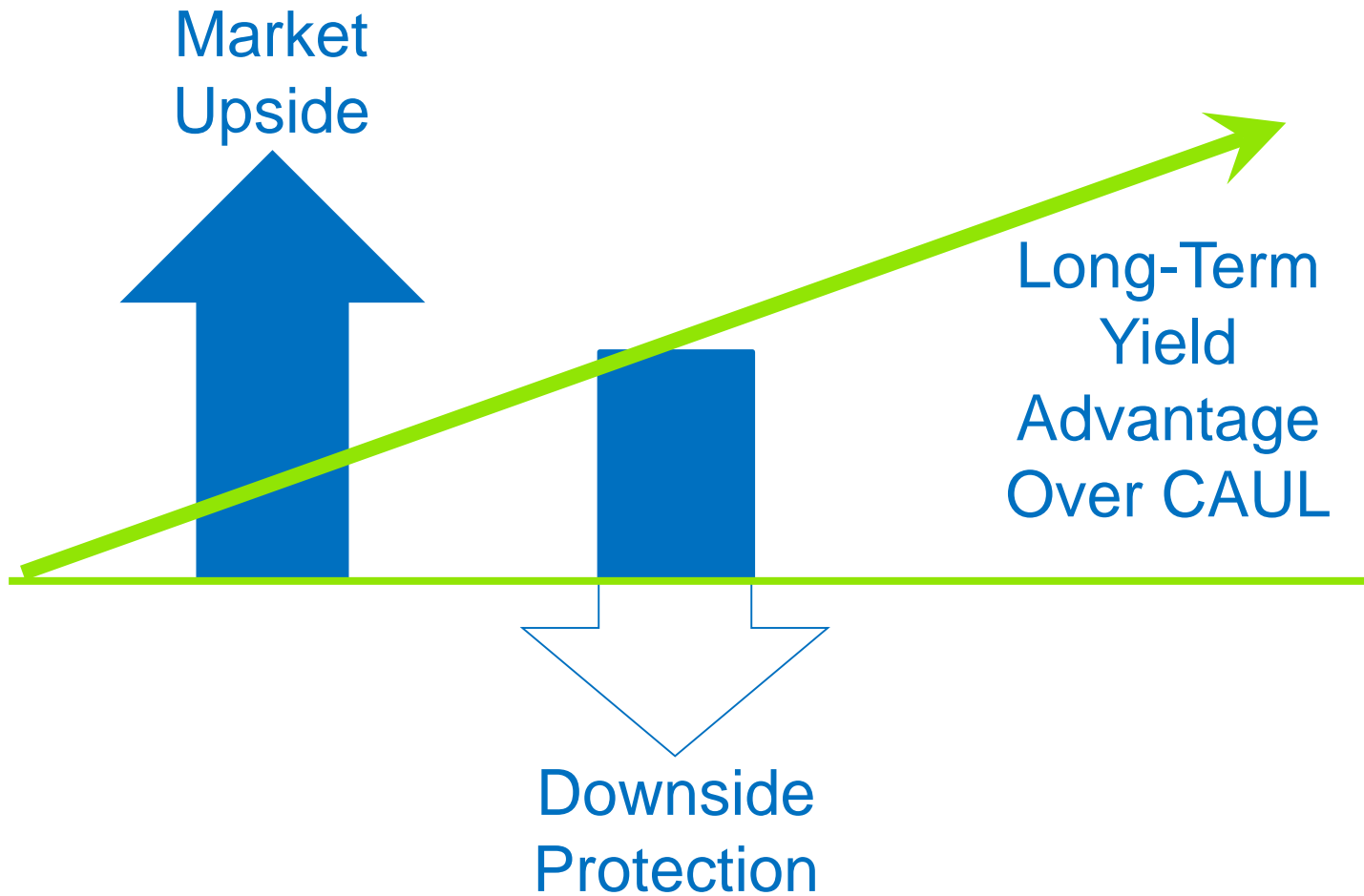
# IUL vs Traditional UL

*The major difference between traditional universal life and index universal life is the way interest is*

	Index UL	Traditional UL
Flexible Premium	YES	YES
Permanent Insurance	YES	YES
Designed to cover Insured's lifetime	YES	YES
Pays interest rate as determined by the company	YES	YES
Net premiums are invested in and backed by the company's general account	YES	YES
Use "month-iversary" concept for COIs and other charges	YES	YES
Include a flexible death benefit and a choice for the death benefit option	YES	YES
Can include Rolling Target Premiums	YES	YES
Provide for tax-deferred cash value accumulation	YES	YES
Include the potential for significant cash value growth	YES	YES
Incorporate guarantee features	YES	YES
Include a guaranteed interest rate	YES	YES
Allow for withdrawals and loans	YES	YES
Upside earnings potential with index-linked interest crediting	YES	NO



# Value Proposition



# Determining Cap & Participation Rates

- Step 1 - Premium invested in fixed income investments
- Step 2 - Net investment earnings provide guaranteed interest rate
- Step 3 - Remaining earnings purchase one-year or longer call options on the specific index or indices.
  - Price of call options relative to investment earnings is primary factor in determining participation rate
  - This is commonly referred to as a carrier's "option budget"



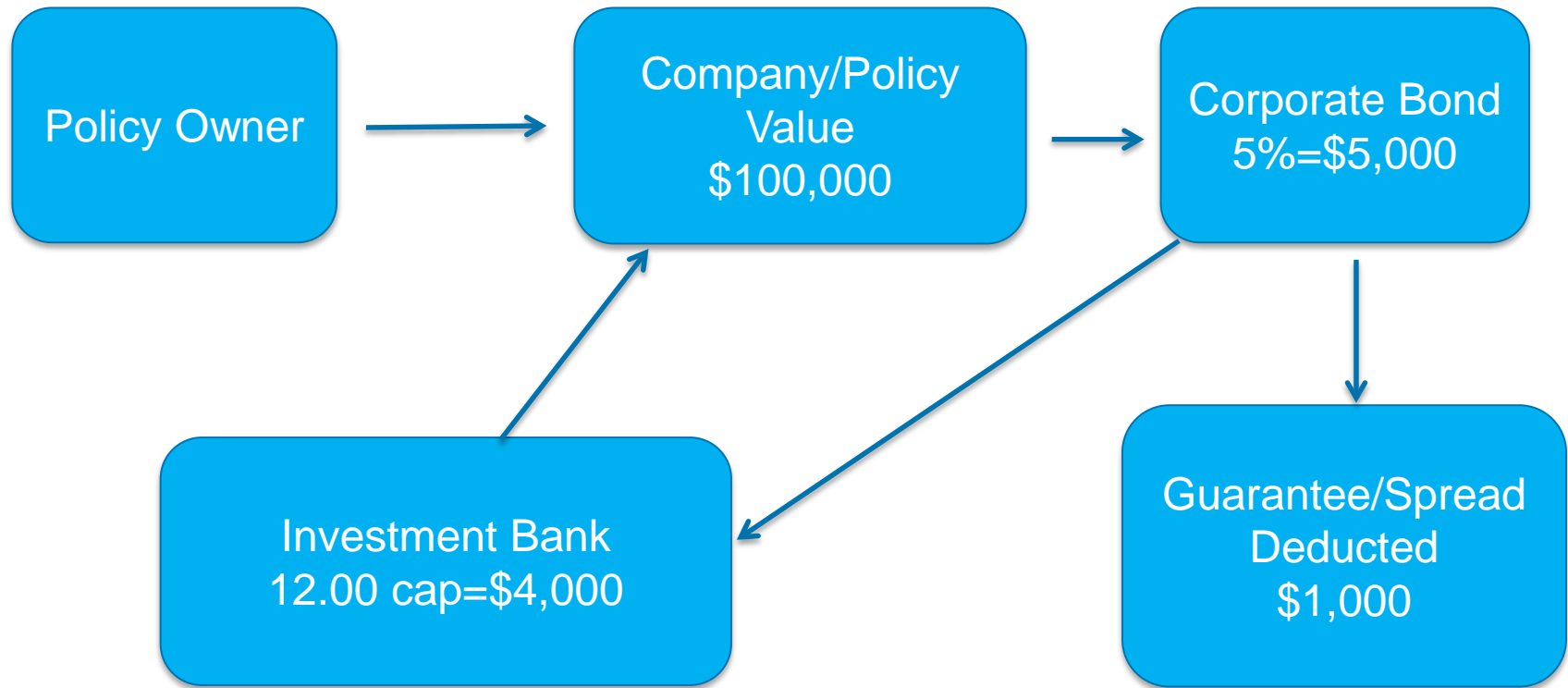
# What Happens Next?

- Market rises, call options are exercised
  - Policy credited with indexed interest
  
- Market decreases, options expire (worthless)
  - Policy credited with guarantee, or
  - Other selected policy options





# IUL Cap Setting Process



Policy Cash Value	Corporate Bond Rate of Return	Cost of Index Option	Cap Rate
\$100,000	5%	\$4,000	12%

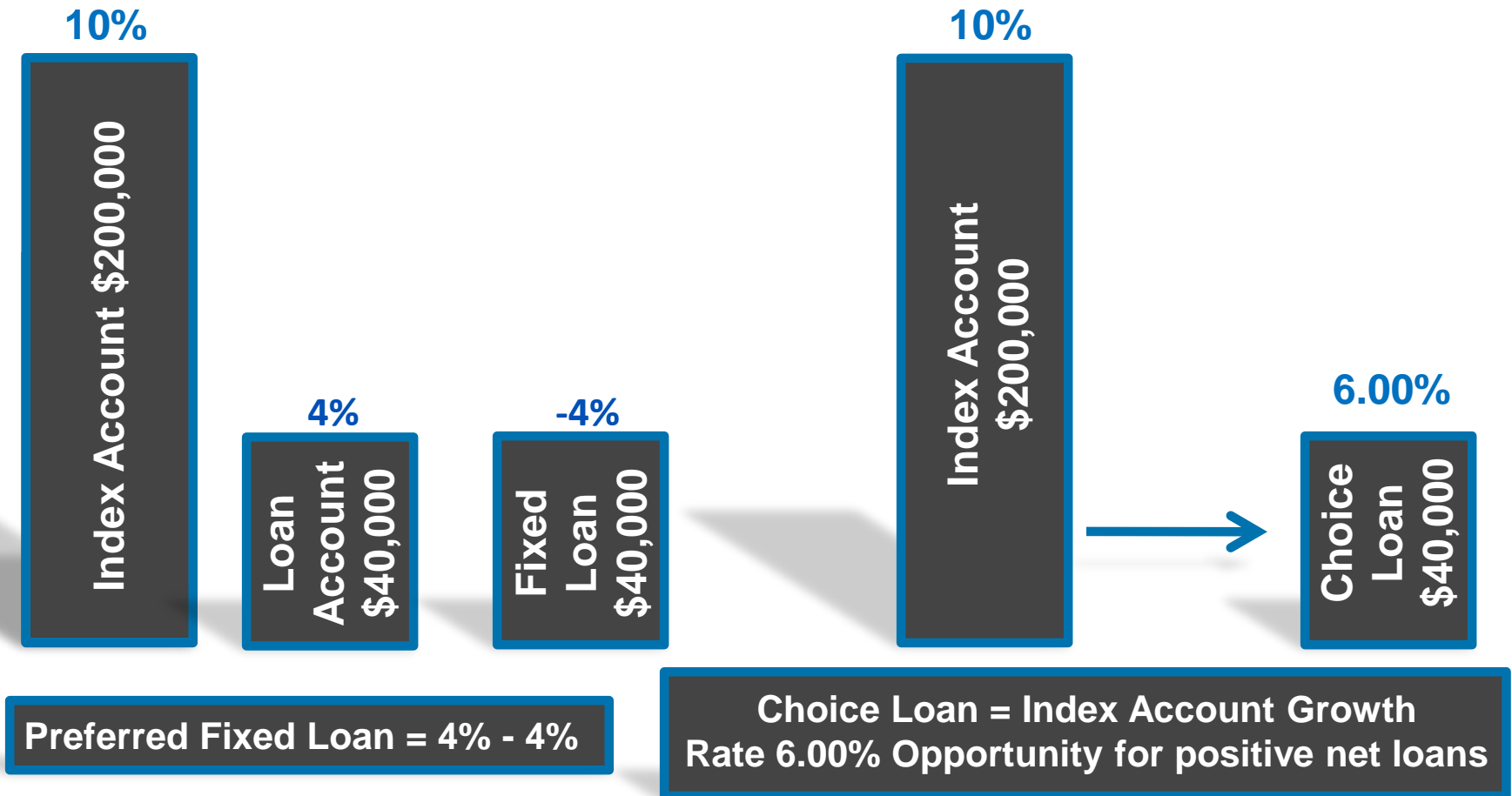


# Policy Loan Types

- **Fixed Loan** – both the loan rate and the borrowed funds are fixed
- **Variable Loan** – Two types where both the loan rate and the borrowed funds participate in an index –
  - **True Variable loan** - loan charge rate set by the Moody's Corporate Bond Average while the funds continue to participate in the index account
  - **Fixed Loan with Participating Funds** - Participating variable loan has a fixed loan rate while the funds continue to participate in the index account (less aggressive type of loan structure)



# Zero Net Cost Loans vs. Choice Loans



Hypothetical Information Presented as an Example

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# Variable Loans Pros & Cons

## Pros

- Allows indexed values to remain & participate in the performance of the index/indices account
  - Allows the opportunity for the index to outperform the loan rate being charged.
- Heavily marketed by some carriers
  - Variable loans illustrate higher disbursements compared to standard loans
  - Becomes an illustration game - easy to out-illustrate other competitors, especially with a true variable loan structure

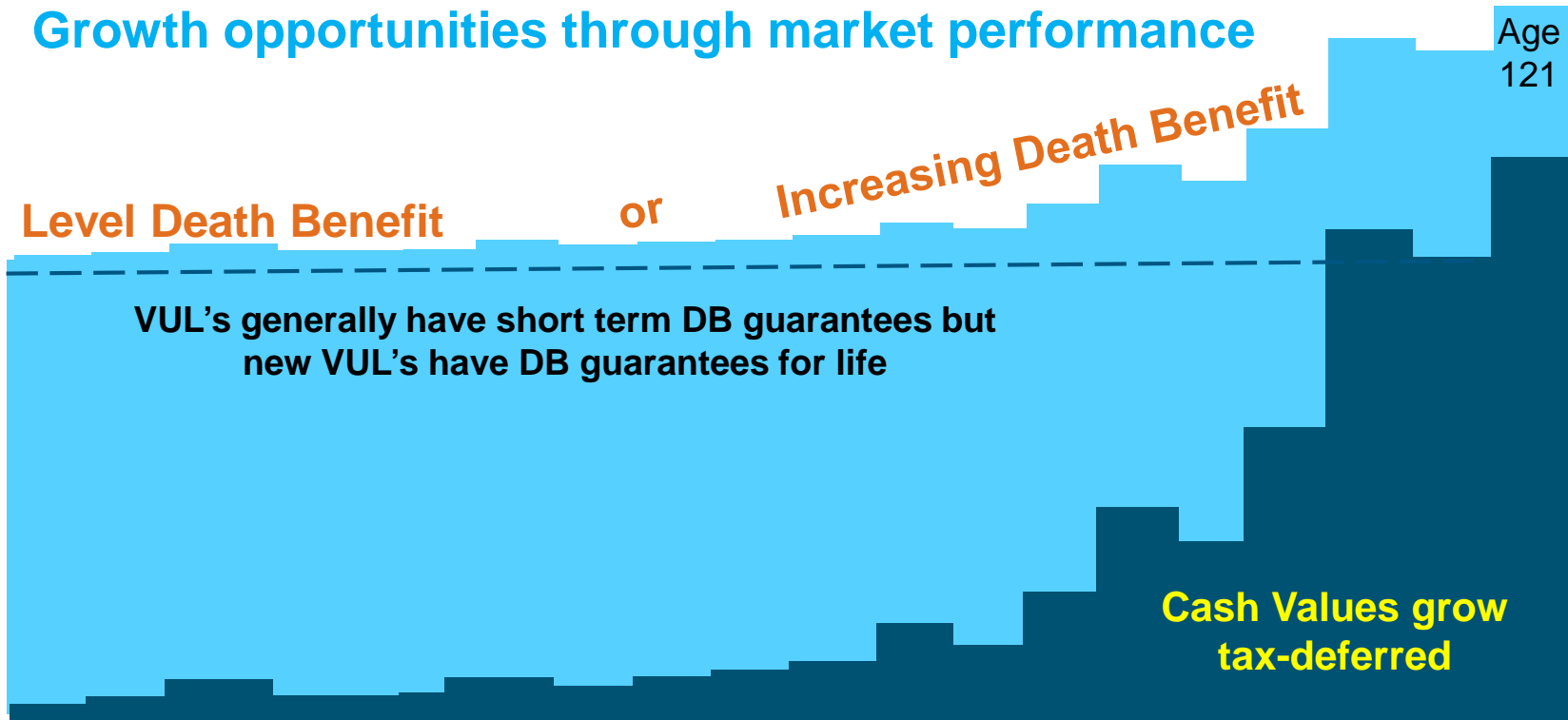
## ▪ Cons

- Possibility the amount credited from index interest or fixed interest accounts is less than the interest charged
- Risk if index performs at less than the interest charged, the policy could lapse or income reduced
- Illustrations almost always show a “positive” spread.
  - Allows the opportunity for the index to outperform the loan rate being charged.
- Loan charge could change on previous loans



# Variable Universal Life

Growth opportunities through market performance



- Volatility can occur - Not for the risk averse!
- Premiums allocated into several subaccounts
- Subaccounts represent domestic and international markets, equity and fixed income funds
- Subaccounts have different investment objectives (subaccounts can lose money)
- Increased risk that the policy values will lose money



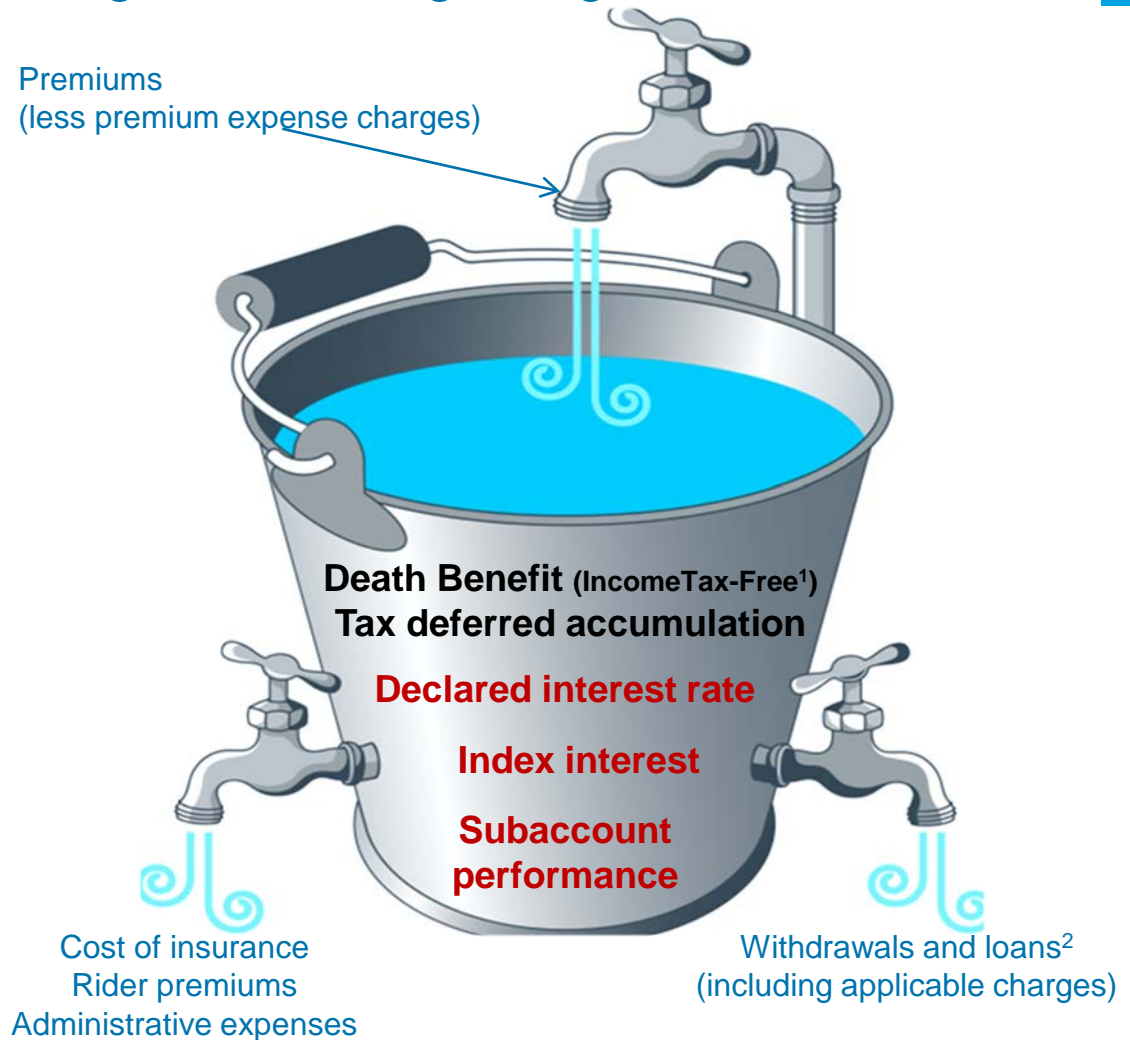
# How Do Cash Values Increase in UL's, IUL's or VUL's?

Different methods for determining and crediting non-guaranteed interest

**Fixed UL:** Interest declared by carrier

**Index UL:** indexed interest credit tied to the performance of an index or indices at the end of a specific period of time.

**Variable UL** –rate of return tied to the performance of the allocated subaccounts (investments)



<sup>1</sup> Based on current federal income tax laws.

<sup>2</sup> Policy owner should consult a tax advisor to determine if these transactions trigger a taxable event.

# The Tax Benefits Of Life Insurance

- Life insurance death benefits are generally income tax free (IRC 101)
- Cash values accumulate income tax deferred (IRC 72)
- Tax-favored income streams via withdrawals and loans
- Accessibility to cash values when needed, not tied to qualified plan restrictions
- Premiums are limited only by face amount of policy, not tied to qualified plan contribution limits
- Cash values, in most situations, are not a determinant in the financial aid calculations



# Determining The Life Insurance Need

Life Insurance Needs Analysis



How much life insurance do you and your family need?



Policies issued by:  
American General Life Insurance Company  
The United States Life Insurance Company in the City of New York

- Why?
- What Type?
- How Much?
- How To Pay Premiums?

## Comprehensive Life Insurance Analysis

How much life insurance do you need? This comprehensive life insurance calculator includes detailed net worth analysis, budgeting and college savings to help you decide how much life insurance you might need. You can also adjust the inflation rate and your expected rate of return to see how these variables can impact your insurance needs.

Calculate View Report

Based on your inputs, additional life insurance required: \$0

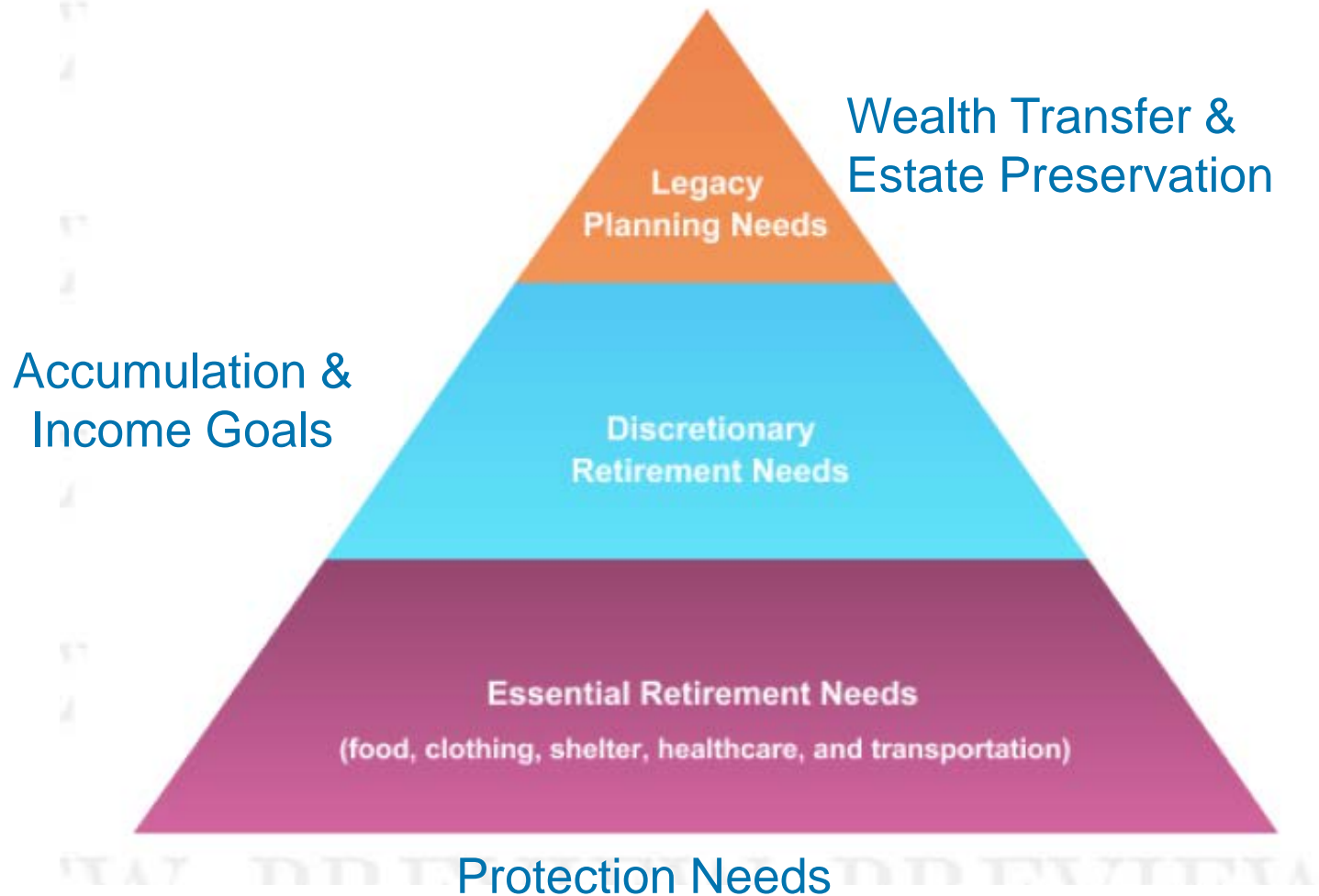
Life insurance need inputs:		[-]				
		\$0	\$100k	\$1m	\$10m	
Existing life insurance coverage:	<input type="text" value="\$0"/>	▲				
Required estate preservation:	<input type="text" value="\$0"/>	▲	\$10k	\$100k	\$1m	
Expected inflation rate:	<input type="text" value="3%"/>	▲	0%	6%	13%	20%
After-tax return on investments:	<input type="text" value="0.25%"/>	▲	0%	4%	8%	12%
<b>Value of investments:</b>					\$0 [-]	
<b>Value of non-income assets:</b>					\$0 [-]	
<b>Current liabilities:</b>					\$0 [-]	
<b>Expenses at death:</b>					\$0 [-]	
<b>Children's education fund:</b>					\$0 [-]	
<b>Value of future income:</b>					\$0 [-]	
<b>Amount required for living expenses:</b>					\$0 [-]	
<b>Your Family's Expenses vs. Available Assets and Life Insurance</b>					[-]	



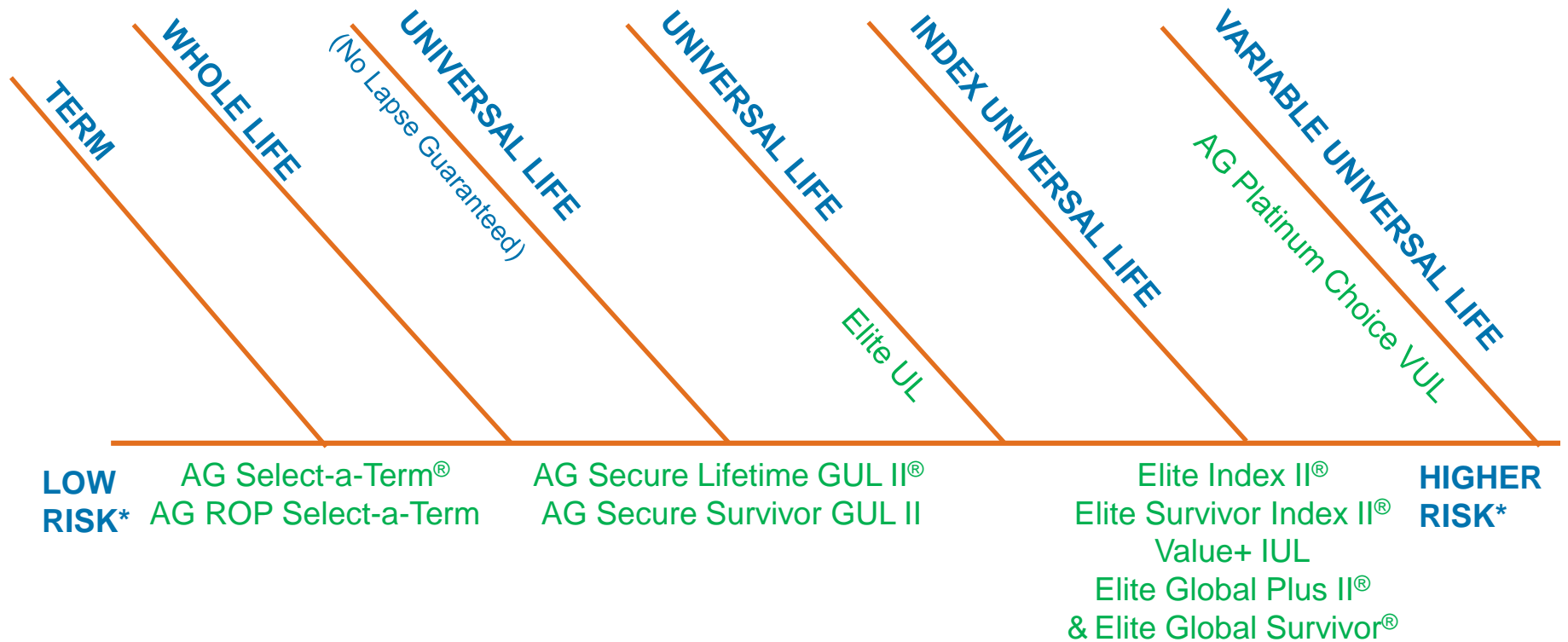


# Where does Life Insurance fit into your Plan?

Your Essential Retirement Needs provide the foundation for your retirement.



# AIG's Spectrum of Life Products



\*Mortality Risk & Interest (Investment) Risk

Policies issued by: American General Life Insurance Company (AGL), except in New York, where issued by The United States Life Insurance Company in the City of New York (US Life). Issuing companies AGL and US Life are responsible for financial obligations of insurance products and are members of American International Group, Inc. (AIG). Policies and riders not available in all states.

Variable Universal Life policies distributed by AIG Capital Services, Inc., member FINRA.

Guarantees are backed by the claims-paying ability of the issuing insurance company.

Prior to soliciting business, be certain that you are appropriately licensed and appointed with the insurer and that the product has been approved for sale by the insurer in that state. If uncertain, contact your American General Life Insurance Company representative for assistance.

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